

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

**HELD ON
Tuesday, August 2, 2005
5:30 p.m., MST**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Lawrence Trachtenberg, Chairperson of the IC, called the meeting to order at 5:32 p.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Lawrence Trachtenberg, Chairperson
 Ms. Anne Mariucci, Vice Chairperson
 Mr. Karl Polen
 Mr. Christopher Harris

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding Forstmann-Leff and Frontier (US Mid Cap Equity)

Mr. Gary R. Dokes, ASRS Chief Investment Officer, gave an overview regarding the performance of Forstmann Leff Associates and Frontier Capital Management Company. Mr. Dokes indicated that the performance of these two money managers has been poor and there was concern that the two firms would not be able to add value to the ASRS portfolio going forward.

Mr. Dan Kapanak, Senior Portfolio Analyst, then gave a brief presentation on the two companies and their historical performance. He noted the structure and philosophy of each company and then noted their return over the three years each company had been managing a portfolio for the ASRS. Both firms significantly underperformed the Standard & Poor's (S&P) Mid Cap growth index over that three-year period.

Based on this information, the Investment Management Division (IMD) recommended to the Committee that both firms be terminated.

Motion: Mr. Karl Polen moved that the Investment Committee (IC) recommend to the ASRS Board that the Board terminate Forstmann Leff Associates and Frontier Capital Management Company as ASRS US Equity Mid Cap growth investment managers;

and

Transition the assets of approximately \$175 million to the ASRS E3 US Equity Mid Cap growth portfolio until a search is completed to identify replacement managers.

Ms. Anne Mariucci seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 absent, the motion was passed.

3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Real Estate Program

Motion: Mr. Karl Polen moved that the IC convene to executive session to discuss items relating to the ASRS Real Estate program which would not be open to the public.

Mr. Christopher Harris seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 absent, the motion was passed.

The IC convened to executive session at 5:41 PM.

The IC reconvened to the regular session at 6:27 PM.

4. Presentation, Discussion and Appropriate Action Regarding a Real Estate Public Core Portfolio

Mr. Dokes spoke on the strategy and creation of an internally-managed passive Public Equity Real Estate Investment Trust (REIT) portfolio, which would be designated as E5. He reminded the Committee that the ASRS Real Estate (RE) Plan that was approved by the ASRS Board in August 2003 contained a mandate to invest approximately 10% of the total real estate program allocation in Core Public REIT securities.

Mr. Eric Rovelli, Assistant Equity Portfolio Manager, gave a brief presentation on the background of the structure of REITs, reasons why the ASRS would be managing a passive REIT portfolio, the portfolio objectives and strategies, and the index selected to evaluate portfolio performance.

Ms. Mariucci inquired as to why the investable universe for the Real Estate Operating Company (REOC) was limited to hotel/motel real estate. She expressed concern at the risk involved with investment only in hotel/motel REOCs and suggested that home builders were a less risky investment. Mr. Rovelli and Mr. Michael Humphrey, Principal of Courtland Partners, Inc., stated that home builder REOCs could be included in the investment mix.

Motion: Mr. Karl Polen moved that the IC recommend to the ASRS Board to approve the strategy and creation of an internally-managed (E5) passive Public Equity Real Estate Investment Trust (REIT) Portfolio;

and

Approve an ASRS Real Estate program REIT active/passive allocation of 75%/25% with +/-10% targets/ranges;

and

Authorize the E5 portfolio funding of the approximately \$30 million;

and

Stipulate that the REOCs not be limited to hotels.

Ms. Anne Mariucci seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 absent, the motion was passed.

5. Presentation, Discussion and Appropriate Action Regarding ASRS Fixed Income Asset Managers

Mr. Dokes gave a brief overview of the current state of the Fixed Income portfolios. He indicated that the market value of the ASRS fixed income manager(s) assets was \$5.1 billion and represented approximately 25% of the ASRS total assets. He stated that there were six fixed income portfolios, three active and three passive/enhanced passive. He also said that approximately two-thirds of the fixed income assets are managed passively and based on an intermediate and longer-term historical basis, ASRS fixed income managers have collectively provided Lehman Brothers Aggregate Index-like returns.

Mr. Karl Polen left the meeting at 6:52 PM.

Mr. Thomas Williams, Portfolio Analyst, gave a brief “snapshot” of the fixed income markets and how they have progressed, accounting for issues like inflation and other economic indicators.

Ms. Anne Mariucci left the meeting at 7:04 PM.

The meeting adjourned at 7:04 PM.

Mr. Thomas McClory, Assistant Attorney General, stated that there was no longer a quorum present at the IRC meeting, so no official business could be conducted. He said that the material being discussed could continue to be presented as “informational only” in nature as the meeting had legally adjourned, as a quorum was no longer present.

Ms. Lupita Breland, Fixed Income Portfolio Manager, gave an overview of the managed portfolios, including those managed by Blackrock Investment Management, Fidelity Management Trust Company, JP Morgan Investment Management, Barclays Global Investors (BGI) and the internal F2 portfolio. Ms. Breland reviewed items such as the investment strategies, performance and returns, and organizational issues.

6. Presentation, Discussion and Appropriate Action Regarding Future IC Agenda Items

Mr. Dokes reminded the Committee that IC meetings were still being held every other month and the next meeting would occur in October. He did state, however, that meetings will be called as necessary to accommodate any business matters that need Committee attention.

Mr. Dokes said that at the next IC meeting, the following issues would be discussed:

- Securities Lending
- Proxy Voting

7. Call to the Public

None.

Respectfully submitted,

Zach Kucera, Secretary

Date

Gary Dokes, Chief Investment Officer Date